



United States Department of Agriculture

Tobacco Transition Payment Program

"This presentation provides illustrations only. Your individual farming situation can be explained in detail at your local USDA Service Center."

What is the new Tobacco Transition Payment Program (TTPP)?

The current Federal tobacco marketing quota system is ending.

TTPP will:

- **help quota holders and producers transition to a free-market system,**
- **pay eligible quota holders and producers annual payments for the next 10 years.**



Will the current USDA Farm Service Agency Tobacco Program continue?

No. The program is ending.

Beginning with the 2005 tobacco crop there are:

- **no more planting restrictions**
- **no more marketing restrictions**
- **no more price support loans.**



What does this mean to a tobacco farmer?

- If you want to receive payments under the TTPP, you must apply for TTPP between March 14 and June 17, 2005.

- If you don't sign up, you'll receive no TTPP payments for 2005.



Can I still grow tobacco?

- Yes. You can continue growing tobacco or switch to another crop.
- FSA will no longer be involved with the traditional tobacco quota program.



Who is eligible to apply for TTPP?

Quota holders with an established 2004 basic marketing quota and who owned the farm as of October 22, 2004.

- **The following producers who shared in the risk of producing tobacco during any of the 2002, 2003, and/or 2004 marketing years:**
 - a. **Owners**
 - b. **Operators**
 - c. **Landlords**
 - d. **Tenants, and**
 - e. **Sharecroppers.**



How much will I be paid?

Tobacco quota holders will receive \$7 per pound based upon:

- their basic quota at the 2002 marketing year level.

Producers of quota tobacco will receive \$3 per pound based upon:

- their share of risk in the 2002, 2003, and/or 2004 crop of quota tobacco.



What do I have to do to receive a payment?

1. **Sign up between March 14, 2005, and June 17, 2005, at the local USDA Service Center.**
2. **If you held quota or production in more than one county:**
 - **you must go to each county office and complete the paperwork.**



How will payments be made?

- **Commodity Credit Corporation will make 10 annual payments over a 10-year period, beginning between June 2005 and September 2005.**



Can I request a lump-sum payment?

- **The Commodity Credit Corporation (CCC) will not make a lump-sum payment to individual tobacco quota holders or producers, but a private party may.**
- **Assignments may begin with the FY 2005 and succeeding year payments.**
- **Successor-in-interest contracts may begin with the FY 2006 and succeeding year payments.**
- **Forms are available from local USDA Service Centers that explain how to transfer TTPP payments from the CCC to another party.**



How do I request a lump-sum payment?

- You may request a lump-sum payment from a private party.
- Request from local USDA Service Center:
 - a successor-in-interest contract form
 - an assignment of payment form



What types of quota tobacco are eligible?

The types of tobacco included in the program are:

- **Flue-cured (types 11, 12, 13, 14):** Flue-cured tobacco is grown in Alabama, Florida, Georgia, North Carolina, South Carolina, and Virginia.
- **Burley (type 31):** Burley tobacco is grown in Alabama, Arkansas, Georgia, Indiana, Kansas, Kentucky, Missouri, North Carolina, Ohio, Oklahoma, Tennessee, Virginia, and West Virginia.
- **Fire-cured (types 21, 22, 23):** Fire-cured tobacco is grown in Kentucky, Tennessee, and Virginia.
- **Dark air-cured (types 35, 36):** Dark air-cured tobacco is grown in Indiana, Kentucky, and Tennessee.
- **Virginia sun-cured (type 37):** Virginia sun-cured tobacco is grown only in Virginia.
- **Cigar filler/binder (types 42, 43, 44 and 54, 55):** Types 42-44 are established in Minnesota and Ohio. Types 54-55 are grown only in Wisconsin.



What if I don't want to take part in the new TTPP?

- Sign-up for this tobacco program is voluntary.
- Whether you sign up or not:
 - the Federal tobacco marketing quota and price support loan programs end at the end of the 2004 marketing year.



Can I still receive benefits under the old Federal marketing quota system?

- No. The quota system is over with the end of the 2004 crop.



What is the legal authority and source of funding for payments?

- On October 22, 2004, President George W. Bush signed the American Jobs Creation Act of 2004.
- This Act included the Fair and Equitable Tobacco Reform Act, which established the TTPP.
- To fund these payments:
 - Commodity Credit Corporation will assess importers and manufacturers of tobacco products.



What does “Base Quota Level” mean?

The Base Quota Level, or BQL, is a new term defined by the Fair and Equitable Tobacco Reform Act.

Simply, it is the number of pounds for which a quota holder or tobacco producer will receive transition payments.

- The farm BQL for quota holders is based on the farm's 2002 basic quota.
- The farm BQL for tobacco producers is based on the farm's 2002 effective quota produced on the farm.



How is the BQL calculated for tobacco quota holders?

- Tobacco quota holders will receive \$7 per pound based upon the farm's 2002 basic quota.
- If the farm's 2002 basic quota is 10,000 pounds, the quota holder would receive a total of \$70,000, payable in 10 annual payments of \$7,000.



How is the BQL calculated for producers on a tobacco farm?

The BQL is equal to the farm's 2002 effective quota for tobacco produced on the farm.

Example of a farm whose production in 2002, 2003 and 2004 is equal to the farm's effective quota in each of those years (and did not have undermarketings in 2001):

2002 Effective Quota equals 10,000 pounds

The farm marketed 10,000 pounds

2002 EQ = 10,000 lbs

So,

10,000 pounds would be multiplied by \$3

$10,000 \text{ lbs} \times \$3 = \$30,000$

To be paid in 10 annual installments.

So,

$\$30,000 / 10 \text{ yrs} = \$3,000 \text{ per year}$



How will the farm's BQL be distributed among the producers on the farm?

The farm's BQL must be distributed among the producers who shared in the risk of production.

- \$1 per BQL (lb) will go to the 2002 producers
- \$1 per BQL (lb) will go to the 2003 producers
- \$1 per BQL (lb) will go to the 2004 producers .

How would a producer's payment be calculated?

Assume Producer Jones had a 50-percent share of the risk in producing tobacco in 2002, did not share in the risk in 2003, and had a 25-percent share in 2004.

This producer would receive annual payments on:

- **50 percent of 2002 BQL**
- **0 percent of 2003 BQL**
- **25 percent of 2004 BQL.**



How do undermarketings, overmarketings, lease and transfers (for burley producers), and disaster leases affect the calculation of the producer BQL?

- In all cases, a pound can only be included in a BQL one time.
- That means that two producers cannot receive payments on the same pound.
 - For example, see next slide.



Specifically, which producer would receive payments for undermarketings, overmarketings, lease and transfers (for burley producers), and disaster leases?

- **Undermarketings will be paid to producers in the year following the undermarketings. The BQL is reduced to producers in the year the undermarketings occur by the amount of the undermarketings, except in 2004 where undermarketing will be paid in the year suffered.**
- **Overmarketings will be paid in the year the overmarketings occurred, limited to penalty-free pounds. The BQL in the subsequent year will be reduced by the amount of the overmarketings. For 2004, overmarketings will not be paid.**
- **Undermarketings dropped are paid in the same year.**

Specifically, which producer would receive payments for undermarketings, overmarketings, lease and transfers (for burley producers), and disaster leases? (Continued)

- Farms that leased in pounds will have their BQL increased by those pounds; farms that leased out those pounds will have the BQL decreased by those pounds.
- A farm that leased away pounds of tobacco because of a natural disaster WILL have those pounds included in the BQL. A farm that leased in pounds because of a natural disaster WILL NOT have those pounds included in the BQL.



How is the farm BQL calculated for 2002, 2003 and 2004?

- The 2002 farm BQL is equal to the farm's 2002 effective quota for tobacco produced on the farm
- For most types of tobacco, a farm's basic quota was reduced in 2003 and 2004 due to a national quota decrease. When this occurs, the 2003 and 2004 effective quotas will be adjusted by a pre-determined number to bring the effective quota up to the 2002 level.



Burley Example:

- 2002** Effective quota (without 2001 undermarketings) equals 1,000 pounds; Marketings equals 1000 pounds; BQL equals 1,000 pounds
- 2003** Effective quota equals 889 pounds; Marketings equals 889 pounds; BQL equals 1,000 pounds (889 times 1.12486 pre-determined adjustment)
- 2004** Effective quota equals 933 pounds; Marketings equals 933 pounds; BQL equals 1,000 pounds (933 pounds times 1.071295 pre-determined adjustment)



Flue-cured Example:

2002 Effective quota (without 2001 undermarketings) equals 1,000 pounds; Marketings equals 1000 pounds; BQL equals 1,000 pounds

2003 Effective quota equals 905 pounds; Marketing equals 905 pounds; BQL equals 1,000 pounds (905 times 1.10497 pre-determined adjustment)

2004 Effective quota equals 810 pounds; Marketings equals 933 pounds; BQL equals 1,000 pounds (810 pounds times 1.23457 pre-determined adjustment)



Can I designate a power of attorney?

Yes, using FSA's 211 Form.

Your current power of attorney is valid if:

- you have already submitted form FSA-211, dated July 25, 2002 or later, to your local USDA Service Center
- and checked the box entitled “All current and future programs.”



What is the difference between an assignment and a successor-in-interest contract?

- **Assignment contract:** The check will be written to a third party of your choice if you assign a payment. You will continue to be the contract holder and you must continue to abide by the terms of the contract.
- **Successor-in-interest contract:** If a successor-in-interest contract is signed, the original contract holder no longer has a contract with CCC. All future checks will be written to the successor and the successor must abide to the terms of the contract.



If I am delinquent on debt to the Federal Government in question, must that be paid before receiving TTPP payment?

- **Yes. Any delinquent debt owed any Federal Agency will be deducted before TTPP payment is made.**





Where can I go for more information?

- **USDA Service Centers**
- **The USDA/FSA Tobacco Website, www.fsa.usda.gov/tobacco**
- **Call Toll-Free 1-866-887-0140**

